

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 FEAE-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 PA-01 PRS-01

TAR-01 /094 W

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R 081523Z OCT 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5410

INFO AMCONSUL EDINBURGH

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E.O. 11652: N/A

TAGS: ETRD, ENRG, UK

SUBJECT: NORTHSEA OIL: OFFSHORE OPERATORS' PROCUREMENT

REF: (A) LONDON 12521 (B) LONDON 13620

(C) EDINBURGH 223 (D) LONDON A-821

SUMMARY: UK OFFSHORE OPERATORS ASSOCIATION (UKOOA) CONTINUES TO DISCUSS PROPOSED GUIDELINES ON PROCUREMENT WITH DEPARTMENT OF ENERGY. SINCE DOE SEEMS TO BE INSISTING ON GUIDELINE PROVISIONS WHICH COULD PREJUDICE COMMERCIAL DECISIONS IN FAVOR OF BRITISH INDUSTRY, EMBASSY HAS RAISED THESE PROVISIONS WITH DOE, URGING THAT GUIDELINES NOT GO BEYOND FULL AND FAIR OPPORTUNITY FOR UK SUPPLIERS. END SUMMARY

1. OUR ASSESSMENT UNTIL RECENTLY HAS BEEN THAT DOE AND ITS OFFSHORE SUPPLIES OFFICE (OSO) HAVE PUT A GOOD DEAL OF PRESSURE ON THE OPERATORS TO BUY BRITISH WHERE THIS IS POSSIBLE, BUT THAT THERE IS LITTLE EVIDENCE

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THAT, ASIDE FROM A FEW CASES OF OVERENTHUSIASTIC OSO

OFFICIALS, THIS PRESSURE HAS GONE BEYOND LEGITIMATE MEANS, NOTABLY INFORMATIONAL REQUIREMENTS INTENDED TO ENSURE FULL OPPORTUNITY FOR BRITISH FIRMS AND PERSUASION NOT FOLLOWED Y PENALTIES OR ACCOMPANIED BY THREATS OF PENALTIES FOR PROCUREMENT ELSEWHERE. THOUGH IT IS TRUE THAT MUCH PAPER WORK IS INVOLVED IN THE OSO'S INFORMATIONAL REQUIREMENTS AND THERE ARE A NUMBER OF WAYS IN WHICH THE OPEPATORS COULD BE SUBJECTED TO PRESSURES, WE HAVE HEARD OF VERY FEW COMPLAINTS BY EITHER OPERATORS OR SUPPLIERS AND NONE OF THE LONDON OFFICES OF THE OIL COMPANIES HAS COMPLAINED IN TERMS SUCH AS "UNMERCIFUL PRESSURE" (REF C PARA 6) OR GIVEN THE IMPRESSION THAT ITS PROCUREMENT DECISIONS ARE BEING SUBSTANTIALLY INFLUENCED BY PRESSURE. DOE CONCEDES THERE HAVE BEEN ONE OR TWO CASES OF UNDUE PRESSURE OR THREATS WHICH HAVE BEEN DISAVOWED BY DOE AS ABERRATIONS OF OFFICIALS WHO WERE GOING BEYOND INTENDED POLICY BUT WERE RESOLVED WITH CONTRACTS GOING TO FOREIGN SUPPLIERS.

2. THE EMBASSY HAS RAISED THE SUBJECT OF PROCUREMENT POLICY WITH MINISTERS AND SENIOR OFFICIALS OF HMG ON MANY OCCASIONS IN ORDER TO SHOW OUR INTEREST AND CONCERN AND TO TRY TO DETER THEM FROM GOING BEYOND THE STATED POLICY. THE RESPONSE TO THESE APPROACHES HAS BEEN ALMOST UNIFORMLY TO THE EFFECT THAT HMG IS SEEKING TO ASSURE FULL AND FAIR OPPORTUNITY FOR BRITISH FIRMS AND WILL NOT INTERFERE WITH DECISIONS BASED ON COMMERCIAL CRITERIA.

3. REFTELS A AND B REPORTED DRAFT MEMORANDUM OF UNDERSTANDING AND CODE OF PRACTICE WHICH DOE IS ASKING OFFSHORE OPERATORS TO ACCEPT AS GUIDELINES ON PURCHASING AND THAT UKOOA IS SEEKING REVISIONS TO LIMIT GUIDELINES TO FULL AND FAIR OPPORTUNITY AND FLOW OF INFORMATION. ASSOCIATION SUBMITTED REVISED DRAFT TO DOE SEPTEMBER 19 AND SINCE THEN MEETINGS HAVE BEEN HELD IN WHICH DOE HAS ACCEPTED SOME OF OPERATORS' IDEAS BUT IS ARGUING FOR SOME PROVISIONS OF GUIDELINES WHICH WOULD INTERFERE WITH FREEDOM OF PURCHASE DECISIONS OR AT LEAST HAVE POTENTIAL FOR DOING SO. IN PARTICULAR DOE (A) HAS ASKED LIMITED OFFICIAL USE

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OPERATORS TO RECOGNIZE NEED TO ENCOURAGE CREATION OF NEW OR EXPANDED UI PRODUCTION CAPACITY TO MEET NEEDS OF INDUSTRY AS SEEN BY DOE AND TO DO THIS "THROUGH TECHNICAL AND CONTRACTUAL SUPPORT" AND (B) ASSERTED RIGHT TO DELAY OR INTERFERE WITH OPERATORS' COMMERCIAL DECISIONS IN EXCEPTIONAL CASES.

4. SINCE GUIDELINES AS PROPOSED BY DOE SEEM TO GO

BEYOND CODIFICATION OF EXISTING POLICY AND IT APPEARS
DOUBTFUL WHETHER UKOOA WILL OBTAIN ADEQUATE REVISION,
WE RAISED MATTER WITH DOE, ECOMIN AND ENERGY ATTACHE
CALLING OCTOBER 7 ON DEPUTY SECRETARY JOHN LIVERMAN.
WE EXPRESSED CONCERN WITH APPARENT EFFORT TO GO BEYOND
PREVIOUS POLICY AND INTERFERE WITH COMMERCIAL DECISIONS,
CITING PARTICULARLY PROPOSED POSITIONS (A) AND (B)
PARA 3 ABOVE AND INTENT TO APPLY RULES TO SUPPLIER
SUB-CONTRACTORS. WE ALSO SUGGESTED ON PERSONAL BASIS

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THAT SUCH REQUIREMENTS WOULD BE INCONSISTENT WITH
ARTICLE III, 1 AND 4, OF THE GATT AND ASKED LIVERMAN TO
BRING OUR CONCERNS TO ATTENTION OF HIS COLLEAGUES
RESPONSIBLE FOR POLICY AND DETAILS OF PROPOSED GUIDE-
LINES.

5. LIVERMAN EMPHASIZED IN HIS RESPONSE THE WIDESPREAD

CONCERN IN BRITAIN OVER OBTAINING GREATER BENEFITS FROM THE NORTH SEA SUPPLIES AND EQUIPMENT MARKET. PLACEMENT OF OVER HALF MF OFFSHORE ORDERS ABROAD HAD AROUSED PARLIAMENTARY AND PARTICULARLY SCOTTISH FEELING. OSO HAD BEEN FAIRLY ACTIVE IN SEEKING TO IMPROVE PERFORMANCE OF UK SUPPLIERS. ITS SYSTEM OF OPERATION WAS WELL UNDERSTOOD BY MOST OFFSHORE OPERATORS, BUT THERE WERE A FEW WHO DISREGARDED OR PAID LIP SERVICE TO FULL AND FAIR OPPORTUNITY CONCEPT; E.G., THEY THREW UP GENERALIZED NOT SPECIFIC, OBJECTION OF POOR UK LABOR PERFORMANCE. TENDENCY OF SOME OPERATORS WAS TO STICK WITH LONG-LIMITED OFFICIAL USE

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STANDING, REGULAR SUPPLIER. WHILE UNDERSTANDABLE, THIS WAS NOT ACCEPTABLE UNDER FULL AND FAIR OPPORTUNITY CONCEPT. LIVERMAN UNDERLINED THAT OSO NEEDED MORE

TEETH TO HANDLE THESE FEW EXCEPTIONS. WHEN POSSIBILITY OF CORRECTIVE LEGISLATION WAS BROACHED, UKOOA SUGGESTED CODE OF PRACTICE ALTERNATIVE WHICH DOE THOUGHT WAS A GOOD IDEA AND WOULD ALLOW MINISTERS TO DEFEND GOVERNMENT'S HANDLING OF SENSITIVE ISSUE.

6. TURNING TO SPECIFIC POINTS MADE BY ECOMIN, LIVERMAN SAID MEETING BETWEEN PARLIAMENTARY UNDER SECRETARY OF STATE JOHN SMITH AND UKOOA ON OCTOBER 3 HAD MADE PROGRESS IN CLEARING AWAY MISUNDERSTANDINGS ON THESE SPECIFIC ISSUES AND HE HOPED THERE WOULD BE A VOLUNTARY AGREEMENT SOON. ON POINT (A), LIVERMAN STATED DOE NEVER REALLY INTENDED THAT OPERATORS SHOULD PROVIDE FINANCIAL ASSISTANCE TO UK SUPPLIERS. IT WAS MORE A QUESTION OF PROFESSIONAL ADVICE, HELP ON QUALITY CONTROL, ETC. HE DENIED KNOWLEDGE OF EXACT WORDS EMPLOYED IN LATEST DRAFT MEMORANDUM BUT INSISTED HE PERSONALLY HAD INSERTED LANGUAGE WHICH SPOKE TO BUILDING UP UK CAPACITY ON COMPETITIVE, NOT SUBSIDIZED, TERMS. ON POINT (B), LIVERMAN SAID IT WAS LARGELY A QUESTION OF TIMING, WITH SOME OF PROBLEMS RESOLVED AT OCTOBER 3 MEETING. HE WENT ON TO NOTE, HOWEVER, THAT ISSUE IS NOT SIMPLY ONE OF PRICE OR DELIVERY TERMS; IT IS MUCH MORE COMPLEX AND INVOLVES ASSURANCE THAT OPERATORS' FULL CONSIDERATION AND EVALUATION TAKES PLACE. OSO THEREFORE NEEDS FULL INFORMATION BEFORE AN ORDER IS GIVEN TO BE EFFECTIVE. MMST COMPANIES HAVE COOPERATED AND THIS PROBABLY WILL BE HANDLED BY AN ACCEPTABLE FORMULATION WHICH RECOGNIZES NEED NOT TO CAUSE UNDUE DELAY. LIVERMAN ADDED THAT OSO CANNOT BE TIED DOWN TO 24 OR 48 HOURS IN ALL CASES IN WHICH TO MAKE REPRESENTATIONS TO AN OPERATOR ABOUT TO AWARD AN ORDER.

7. LIVERMAN CONCLUDED THAT HMG THINKS REASONABLE AND FAIR GUIDELINES WILL BE WORKED OUT AND THAT IF COMPLAINTS ARISE UNDER THEM IN SPECIFIC CASES, UK OFFICIALS WOULD BE HAPPY TO DISCUSS THEM WITH EMBASSY
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8. IN RESPONQE TO QUESTION LIVERMAN SAID HE DOES NOT EXPECT DEFINITION OF UK FIRMS FOR PURPOSES OF GUIDELINES BUT UKG CONCERN IS WITH WHERE WORK IS DONE (I.E. VALUE ADDED) RATHER THAN OWNERSHIP OF SUPPLYING FIRM.

9. SINCE THIS MESSAGE WAS WRITTEN, WE HAVE HEARD FROM UKOOA SOURCES THAT OSO OFFICIALS AGREED IN LENGTHY MEETING HELD YESTERDAY TO SIGNIFICANT IMPROVEMENTS IN PROPOSED GUIDELILES WHICH MAY MAKE IT SATISFACTORY AND ACCEPTABLE TO UKOOA. WE HAVE BEEN PROMISED COPY OF REVISED TEXT.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: OFFSHORE DRILLING, NATURAL GAS, PETROLEUM, SALES, PROCUREMENT, NEGOTIATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 08 OCT 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: greeneet
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975LONDON15498
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750349-0755
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751071/aaaackvi.tel
Line Count: 247
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 LONDON 12521, 75 LONDON 13620
Review Action: RELEASED, APPROVED
Review Authority: greeneet
Review Comment: n/a
Review Content Flags:
Review Date: 24 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <24 JUN 2003 by ShawDG>; APPROVED <06 NOV 2003 by greeneet>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: NORTHSEA OIL: OFFSHORE OPERATORS' PROCUREMENT
TAGS: ETRD, ENRG, UK
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006